

HOUSING MARKET OUTLOOK

Gatineau¹



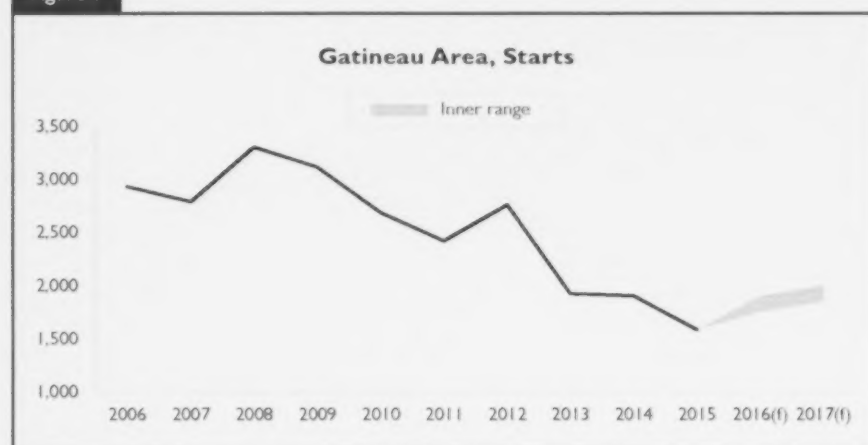
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- The new home market will post renewed growth in 2016 and 2017, but activity levels will remain below the historical average.
- Resale market conditions will tighten further, with the market moving closer to balanced territory in 2017.
- The rental housing vacancy rate will dip to 5.5 per cent in 2016 and then to 5.0 per cent in 2017.
- Economic and demographic conditions will continue to support housing demand.

Figure 1



Source: CMHC, (f): Forecast

¹ Quebec part of Ottawa-Gatineau CMA.

The forecasts and historical data included in this document reflect information available as of April 29, 2016.

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New home market: renewed growth in 2016 and 2017

Following a significant decline in residential construction in 2015 (-17 per cent), the winds will begin to change on the new home market in the Gatineau area. Last year, housing starts recorded a 15-year low of 1,584 units in the area. That drop was due in part to the abundant supply on the new and existing home markets, which reduced the need for new units. Over the next two years, the rise in housing demand will allow for part of this inventory of available units to be absorbed and, by the same token, help residential construction pick up the pace. As a result, total starts will increase, reaching between 1,750 and 1,900 units in 2016 and then between 1,850 and 2,000 in 2017. However, the continued large supply of available new and existing homes and the soft rental market conditions will limit the growth in construction, which will remain at levels below the historical average.

The expected rise in residential construction will occur essentially in the multi-unit housing segment.

In the case of condominium apartments, the significant decline in activity observed last year reflected the fact that builders directed a portion of the demand toward units under construction as well as completed and unabsorbed units, which helped lower the inventory. With the anticipated rise in housing demand this year and next, the number of new unsold units will continue to decrease and several announced condominium projects should get under way. In the rental apartment segment, activity had risen last year (+ 32 %) principally because of the construction of new senior housing units. However, the relatively high proportion of vacant conventional rental dwellings will limit the need for new units over the forecast horizon, which will keep the pace of construction slow on the rental housing market.

Starts of semi-detached and row houses, for their part, will remain relatively stable until 2017. In fact, these homes will remain appealing to some buyers, thanks in part to their relative affordability.² However, the construction of semi-detached and row houses will be limited by the increase in

the inventory of completed and unsold units, which is now well above the historical average. Builders will therefore be prompted to direct buyers to already available units before going ahead with new projects.

Overall, multi-unit housing starts will post a gain in 2016, reaching between 1,375 and 1,475 units. In 2017, with demand on the rise, multiple-unit housing construction should increase again, with starts expected to range between 1,450 and 1,550 units.

As for single-detached home starts, they will remain at relatively low levels over the forecast horizon. In fact, the limited number of few available lots, along with the density targets stipulated in the City of Gatineau land use planning and development plan, will continue to restrict the potential development of such houses, in favour of multi-unit housing, within the city. Single-detached home construction will again be concentrated in the outlying sector of Gatineau. Consequently, single-detached home starts should reach between 375 and 425 units in 2016 and between 400 and 450 in 2017 — levels similar to those observed last year.

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of

economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

Existing home market: recovery continues

Following a lengthy lull, the resale market saw renewed growth last year. In fact, the employment recovery in the area and the still historically low mortgage rates greatly contributed to the increase of 6 per cent in sales (to a total of 3,531 units) in 2015. This year and next, continued employment and population growth will again boost

² Compared to single-detached houses.

transactions on the resale market. Activity should therefore remain strong, such that sales recorded through the Centris® system should range between 3,750 and 3,850 units in 2016 and between 3,850 and 3,950 in 2017.

Conversely, the supply should fall over the forecast horizon. This decrease will result from both a slowdown in new listings and the surge in sales through the Centris® system. Together, these factors will help lower the supply of existing homes in 2016 and 2017.

With firmer sales and the progressive absorption of the inventory of properties for sale in the Centris® system, conditions should further tighten and the market should move closer to balanced territory after having been in buyers' territory in recent years. Consequently, the average time to sell, which had reached three months in 2015, will start getting progressively shorter. That being said, market conditions will vary depending on the housing types. While the single-family home segment will shift from a buyers' market to a balanced market around 2017, the condominium segment will continue to offer buyers a wider choice and so will remain favourable to them over the forecast horizon.

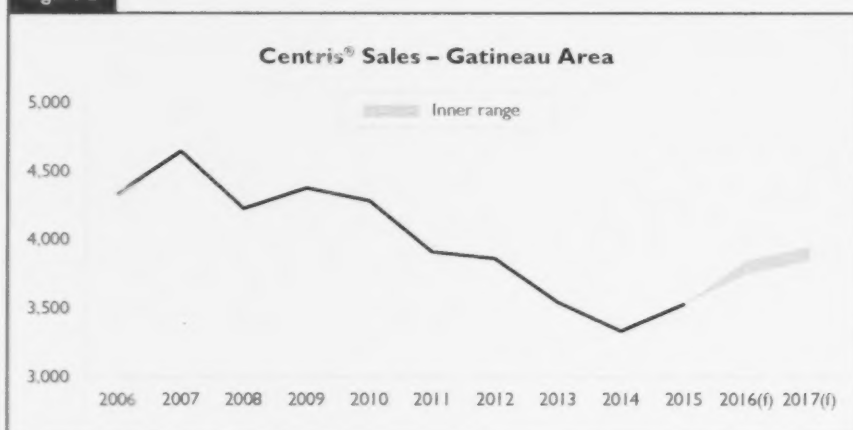
In this context, there will be more pressure on prices than in past years,³ which should push up prices in all categories of properties, but more predominantly in the single-family home segment. The overall average price should therefore range between \$245,500 and \$250,400 in 2016 and between \$249,700 and \$256,200 in 2017.

Rental market in 2016 and 2017

The last few years have been marked by relatively soft conditions on the Gatineau rental market, as the vacancy rate has been hovering between 5.0 per cent and 6.5 per cent since 2013, which is high compared to the average of the past several years. However, conditions should progressively tighten this year and next year.

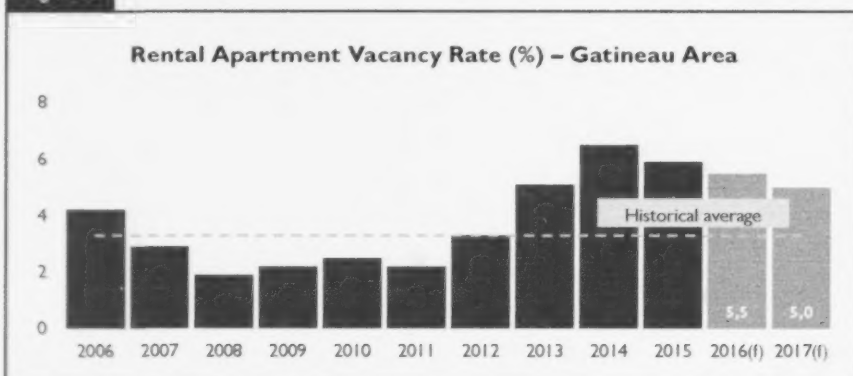
The strengthening economic and demographic conditions, particularly the improving net migration in the area, will stimulate the growth in demand for conventional rental housing. At the same time, the slow pace of rental housing construction over the period will limit the number of new units on this market. As a result, with the combined impact of an increase in demand and weak growth in supply, the vacancy rate will decrease to 5.5 per cent in 2016 and to 5.0 per cent in 2017.

Figure 2



Source: QFREB, statistics Centris®; f: CMHC forecasts

Figure 3



Source: CMHC; f: CMHC forecasts

*: Privately initiated structures with at least three rental units

³ The overall average Centris® price rose by 1.5 per cent in 2015, reaching about \$244,000.

Although the proportion of vacant units is expected to fall, this rate will still be relatively high, since certain factors will curb the potential growth of the demand.

For one thing, the rental condominium market will continue to provide growing competition for the conventional rental market. In fact, these condominiums are tending to post better results than the conventional market.⁴ In 2016 and 2017, the number of rental condominiums will continue to rise, given the large supply of such units on the new and existing home markets,⁵ but the growth will be less significant than in the past. Still, rental condominiums will continue to attract a large share of renters, especially those with higher incomes, and this will limit demand for conventional rental housing. As a result, the anticipated decrease in the rental housing vacancy rate will be smaller.

For another, the expected decline in the number of households⁶ aged from 15 to 24 will also contribute to limiting the growth in rental housing demand. In fact, the number of younger households will decrease by about 2.5 per cent in 2016 and by 3.0 per cent in 2017.⁷ This will be due in part to the exodus of young people to the Montréal area, where there are several universities. Consequently, this factor will have an impact on rental housing demand, given that most young people are renters.

In this perspective, even though the conventional rental market is expected to tighten, the number of vacant units in the area will remain at high levels from a historical standpoint.

Economic and demographic trends

In 2015, the labour market environment in the Gatineau area resulted in a job gain of close to 4.0 per cent. In fact, this strength was observed in a few key sectors of the area. Public administration, trade and, to a lesser extent, educational services posted significant employment increases, which more than offset the losses recorded in other sectors. As well, with this growth having been registered in the 25 to 44 years' age group⁸ and in the full-time job category, the gains led to a modest rise in housing demand in the area.

Over the forecast period, the job market will continue to grow, but at a slower pace than last year. Overall, employment growth is expected to reach 1 per cent annually, such that the number of jobs will climb to 181,000 in 2016 and then to 183,000 in 2017.

From a demographic standpoint, the outlook is favourable for the potential housing demand. According to the latest projections from the Institut de la statistique du Québec, the number of households should

grow by about 1.6 per cent in 2016 and by 1.5 per cent in 2017, which corresponds to the formation of around 2,220 new households per year. In all likelihood, this population growth, which will be mainly observed among people aged from 25 to 44, will increase the main pool of potential buyers and support housing demand over the forecast horizon.

The strengthening economy will also have a notable impact on net migration in the Gatineau area this year and next. First, immigration will show renewed growth, as the government's targets are expected to be achieved. That being said, the primary component of the increase in total net migration will be intraprovincial migration. In fact, thanks to Gatineau's greater appeal attributable to the strong job market, a larger proportion of people,⁹ essentially from Montréal and its surrounding areas, will come to settle in the area. In addition, the net interprovincial migration deficit¹⁰ should continue to decrease, as fewer people will leave the area for other Canadian provinces, particularly Ontario. Overall, total net migration will rise, which will boost housing demand to some extent, especially on the rental market.

The stronger economy and the favourable demographic environment will therefore further stimulate housing demand this year and next.

⁴ The vacancy rate was 4.0 per cent on the rental condominium market in 2015, compared to 5.9 per cent on the conventional rental market.

⁵ An alternative for builders or sellers who are having difficulty disposing of their units in a market where supply is considerable is to put their condominiums up for rent.

⁶ According to Statistics Canada, "Household refers to a person or group of persons who occupy the same dwelling and do not have a usual place of residence elsewhere in Canada or abroad. The dwelling may be either a collective dwelling or a private dwelling."

⁷ Source: Institut de la statistique du Québec, *Perspectives démographiques du Québec et des régions, 2011-2061*.

⁸ According to data from Statistics Canada's National Household Survey, nearly 70 per cent of homebuyers in the Gatineau area were aged 44 or younger.

⁹ People mainly aged from 25 to 44.

¹⁰ Since 2012, the Gatineau area has lost more people to other Canadian provinces than it has gained.

Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing

demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017.

This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy

returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

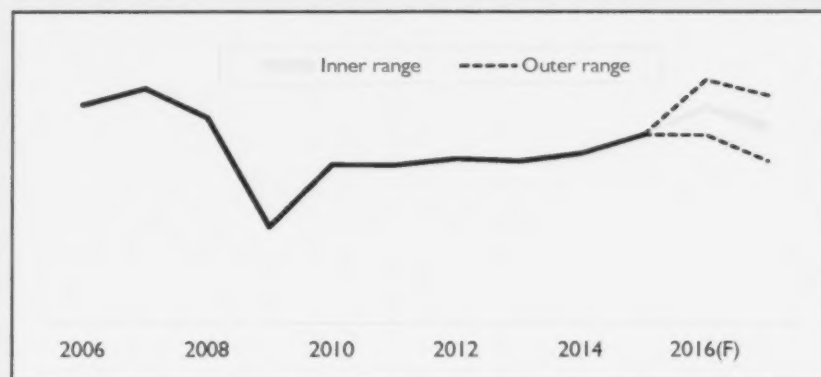
- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a

specific set of assumptions for the market conditions and underlying economic fundamentals.

- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of

historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Trends at a glance

Key Factors and their Effects on Housing Starts

Mortgage Rates	Mortgage rates will begin to rise gradually late in 2017, contributing to moderation in housing demand.
Employment	Employment will continue to increase slightly over the forecast horizon, thereby supporting housing market demand.
Income	Thanks to employment growth, weekly earnings will rise slightly more every year over the forecast horizon. This income growth will support housing demand.
Population	Improving net migration will modestly boost housing demand in the area.
Resale Market	Despite an increase in transactions, buyers will continue to be offered a vast selection of existing properties, which will contribute to limiting demand for new housing.

Forecast risks

This outlook is subject to some risks, including the following:

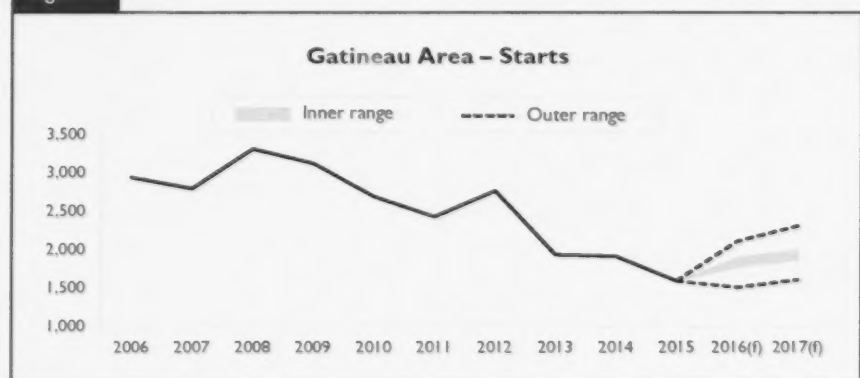
- Accounting for one quarter of the jobs in the area, the public administration sector is a key pillar of Gatineau's job market. Consequently, stronger-than-expected employment growth in this sector could have a greater impact on housing demand, particularly on the resale market. Market conditions would then tighten more significantly, which would put more pressure than anticipated on prices. In that event, transactions could reach up to 4,000 units in 2016 and 4,100 in 2017 and the average price, up to \$251,500 in 2016 and \$257,500 in 2017. Conversely, should employment be weaker than expected, housing demand could be less important. Sales could then attain up to 3,600 units in 2016 and 3,700 units in 2017 and the average price, up to \$244,500 in 2016 and \$248,500 in 2017.
- Gatineau's appeal could be less significant than expected, should the job market be weaker in the area

or should employment be stronger in certain other areas such as Montréal, where most newcomers to Gatineau come from. In that case, net migration would be lower than forecast and demand for housing, particularly rental dwellings, would be affected, which could push up the vacancy rate on the rental market. In such a perspective, the proportion of vacant units could exceed 6 per cent.

- On the new home market, the late start of several very large condominium projects, announced

for the greater Gatineau area, could affect the starts forecasts (presented earlier). Should certain projects be started later on account of weaker-than-expected demand, the number of new units would then be lower. In that case, starts would then reach 1,500 units in 2016 and 1,600 in 2017. On the other hand, should several of these projects be started earlier, as a result of stronger fundamentals, activity would then be more vigorous. Housing starts could then attain 2,100 units in 2016 and 2,300 in 2017 (see figure 4).

Figure 4



Source: CMHC (F): Forecast

Forecast Summary Gatineau CMA Spring 2016							
	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	475	479	422	375	425	400	450
Multiples	1,449	1,424	1,162	1,375	1,475	1,450	1,550
Starts - Total	1,924	1,903	1,584	1,750	1,900	1,850	2,000
Resale Market							
Centris® Sales	3,544	3,335	3,528	3,750	3,850	3,850	3,950
Centris® Average Price(\$)	243,355	240,688	244,300	245,500	250,400	249,700	256,200
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	5.1	6.5	5.9	5.5	5.0
Two-bedroom Average Rent (October)(\$)	744	750	751	755	760
Economic Overview					
Population	324,532	326,655	330,804	334,865	338,972
Annual Employment Level	171,000	173,200	179,500	181,000	183,000

QFREB by Centris®. The Centris® system contains all the listings of Quebec real estate board.

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Centris® CMHC Forecast (2016-2017).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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